

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 EB-11 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20 STR-08

CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 NEA-11 INT-08

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E.O. 11652: N/A

TAGS: EFIN, ENERG, ECON, PINT, JA

SUBJECT: CONVERSATION BY ASSTSEC INGERSOLL WITH MINFIN FUKUDA

SUMMARY: FOLLOWING ARE HIGHLIGHTS OF JANUARY 22 MEETING BETWEEN
MINISTER OF FINANCE FUKUDA AND ASSISTANT SECRETARY INGERSOLL.
END SUMMARY

1. MONETARY SITUATION: FUKUDA CONSIDERED CURRENT
INTERNATIONAL MONETARY SITUATION VERY SERIOUS. PERSONALLY,
HE WANTED TO RETURN TO FIXED RATE SYSTEM BECAUSE HE
CONSIDERS THAT IS FUNDAMENTAL TO STABILIZING WORLD
ECONOMY. HOWEVER, GIVEN THE REALITIES OF TODAY, HE
ACKNOWLEDGED THIS WOULD BE EXTREMELY DIFFICULT TO
ACCOMPLISH.

2. INCREASED OIL COSTS: FUKUDA SAID RAMIFICATIONS
PRIMARILY INVOLVE INTERNATIONAL BALANCE OF PAYMENTS.
ENTIRE SUBJECT DISCUSSED WITH SEC SHULTZ IN ROME.
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LDC'S WERE SUFFERING MOST FROM OIL CRISIS. FUKUDA

STRESSED THAT IF LDC'S WOULD RAISE THEIR VOICES AGAINST PRODUCING COUNTRIES, THEIR POLITICAL INFLUENCE MIGHT CAUSE THE ARABS TO ALTER THEIR ATTITUDE REGARDING PRESENT PRICE OF OIL. FUKUDA SAID FINDING SOLUTION TO ECONOMIC AND FINANCIAL ASPECTS OF OIL PROBLEM WAS A CRITICAL ISSUE FOR ENTIRE WORLD. UNLESS SATISFACTORY RESOLUTION FORTHCOMING, WORLD WOULD BE PLUNGED INTO DIRE CONFUSION. IMPACT WOULD BE GREATEST ON NATIONS OF THE FREE WORLD AND COULD ADVERSELY AFFECT THE POLITICAL BALANCE BETWEEN EAST AND WEST. INGERSOLL ASSURED FUKUDA THAT BOTH PRESIDENT AND SECSTATE ARE ANXIOUS TO INVOLVE LDC'S IN SUBSEQUENT MEETINGS AND LATER TO BRING THE CONSUMING AND PRODUCING NATIONS TOGETHER. HOWEVER, INITIAL MEETING PROPOSED FEBRUARY 11 WOULD BE LIMITED TO A SMALL NUMBER OF CONSUMERS IN ORDER TO EXPEDITE PROGRESS. TOLD FUKUDA THAT IN THEIR DISCUSSIONS WITH SECSTATE, MODERATE ARAB STATES HAD EXPRESSED THEIR CONCERN ON EFFECT OF OIL PRICE RISE ON LDC'S AS WELL AS ADVANCED INDUSTRIAL NATIONS AND ON THEIR RELATIONS WITH CONSUMERS.

3. PROPOSED WASHINGTON OIL CONFERENCE: FUKUDA SAID HE REALIZED U.S. PROPOSAL IS BASICALLY FOR A POLITICAL MEETING BUT OIL QUESTION WAS PRIMARILY BALANCE OF PAYMENTS PROBLEM. FOR THIS REASON, HE THOUGHT IT DESIRABLE IF U.S., AS HOST, WOULD REQUEST THAT BALANCE OF PAYMENTS EXPERTS BE INCLUDED IN THE DELEGATION. INGERSOLL REPLIED MEETING WOULD SURFACE THE MANY ISSUES INVOLVED AND THAT DECISIONS OF FORM OF SUBSEQUENT MEETINGS AND ACTIONS THAT COULD BE TAKEN WOULD BE DECIDED AT FEBRUARY MEETING. HE BELIEVED THERE WOULD BE SUGGESTION THAT TASK FORCES OF EXPERTS BE ORGANIZED TO CONSIDER THE MANY TECHNICAL ASPECTS THAT ARE INVOLVED, AND THAT BALANCE OF PAYMENTS IMPLICATIONS CERTAINLY WOULD BE ONE OF PRINCIPAL SUBJECTS TO BE DEALT WITH. INGERSOLL ALSO SAID THE PRESIDENT PLANNED SEND A REP TO TOKYO TO TALK ABOUT PROPOSED MEETINGS WITH GOJ BEFORE IT IS CONVENED. INGERSOLL SUGGESTED THAT GOJ COULD RECOMMEND TO PRESIDENT'S REP THAT BOP EXPERTS BE INCLUDED. STATE TELEGRAM 15388 WHICH REPORTED THAT SECRETARY SHULTZ WOULD BE PART OF US DELEGATION RECEIVED AFTER MEETING AND LIMITED OFFICIAL USE

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WILL UNDOUBTEDLY RESULT IN SENIOR MIN FINANCE OFFICIAL ATTENDING MEETING, PERHAPS VICE MINISTER INAMURA.

4. PROSPECT OF OTHER COMMODITY PRICE HIKES: FUKUDA MENTIONED THAT SOME PARTICIPANTS AT C-20 ROME MEETING EXPRESSED CONCERN THAT IF PRICE INCREASES SPREAD TO OTHER COMMODITIES (E.G. COPPER, NICKEL), THE WORLD ECONOMIC AND FINANCIAL SYSTEM WILL BE SERIOUSLY STRAINED.

DESCRIBED REQUESTS FROM SEA COUNTRIES FOR INCREASED JAPAN SUPPLIES OF FERTILIZER, STEEL, CEMENT AND OTHER BASIC MATERIALS STATING THAT EXISTING SHORTAGES IN JAPAN MADE IT DIFFICULT FOR JAPAN TO MEET THESE REQUESTS. THUS, IMPACT OF OIL SITUATION ON JAPAN IS CREATING PROBLEMS FOR OTHER SEA ECONOMIES.

5. JAPANESE ECON SITUATION: FUKUDA SAID PRICES IN JAPAN NOW BEING DETERMINED LARGELY BY PSYCHOLOGICAL CONSIDERATIONS AND NO LONGER ON BASIC COST PLUS NORMAL PROFIT FACTORS. CITED PRICES FOR ITEMS THAT HAD INCREASED FROM TWO TO FIVE TIMES ABOVE COST. MENTIONED THAT IF DEMAND CAN BE REDUCED BELOW AVAILABLE SUPPLIES, PSYCHOLOGICAL SITUATION WOULD CALM AND INFLATED PRICES WOULD BEGIN TO FALL. TO ACCOMPLISH THIS, GOJ INTRODUCING A VERY TIGHT BUDGET IN JFY 74 WHICH WOULD CUT REAL PURCHASES FOR GOODS 30 PERCENT BELOW JFY 73 LEVEL. (IN SEEKING CLARIFICATION OF THIS FIGURE FROM MOF OFFICIALS, EMBOFF TOLD THAT 30 PERCENT CUT IN REAL SPENDING WAS REFERENCE TO PUBLIC WORKS EXPENDITURES IN BUDGET).

6. POLITICAL PROSPECTS: FUKUDA SAID HE STILL REMAINED OPTIMISTIC ABOUT PROSPECTS IN UPPER HOUSE ELECTIONS BECAUSE RECENT SHIFTS IN PUBLIC OPINION WOULD ALSO AFFECT POSSIBILITY OF COOPERATION AMONG OPPOSITION PARTIES, THUS TENDING TO ATTENUATE NEGATIVE IMPACT ON LDP. SHOESMITH

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